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Strategic partnerships and sustainable investments:

How can China support the African Mining Vision?

China's appetite for resources is set to increase as the country pursue its development path with demand potentially shifting towards a range of minerals and metals that sustain the leadership's ambition for a greener and high-tech economy. Chinese foreign direct investments (FDI) in the resource sector have soared since the mid-2000s in parallel to its increased dependency on overseas resources. As a result of booming resource markets, Africa, among other resource-rich regions, has benefitted from a surge in global FDI flows including from China. In this context, the African Union formalised its resource-based development and industrialisation strategy embodied in the African Mining Vision (2009). The initiative is supported by international and bilateral development agencies but thus far has not echoed into China's Africa policy discourses and cooperation frameworks. While the conundrum of extractive industries and sustainable development has been highlighted in the FOCAC Declarations, China's formal commitment to sustaining the objective of the continent's mining reform agenda has not yet come explicitly engrained into official channels of cooperation. This policy briefing explores the opportunities for China to engage formally with its African counterparts, and endorse the ideal and objectives of the African Mining Vision by supporting its implementation.

Since the mid-1990s, China has become a net importer of some strategic commodities such as oil, copper, coal and iron ore that underpin its economic development strategy. Increased dependency on overseas markets ignited the *Go Global Policy* devised by the Government, notably, to push state-owned entities to expand their mining asset base globally. Chinese FDI supported by loans granted through the two policy banks, Exim Bank and China Development Bank, have rapidly reached across the developing and developed world. In 2004, China's global FDI stock in the resource sector (oil, gas and minerals) was estimated at approximately USA\$ 5.94 billion; in 2010 at US\$ 44.66 billion. For the period 2008-2009, Chinese proposed investment in Australia's resource sector, mineral exploration and development activities, was worth AUS\$ 26.25 billion¹ (US\$ 26.4 billion).

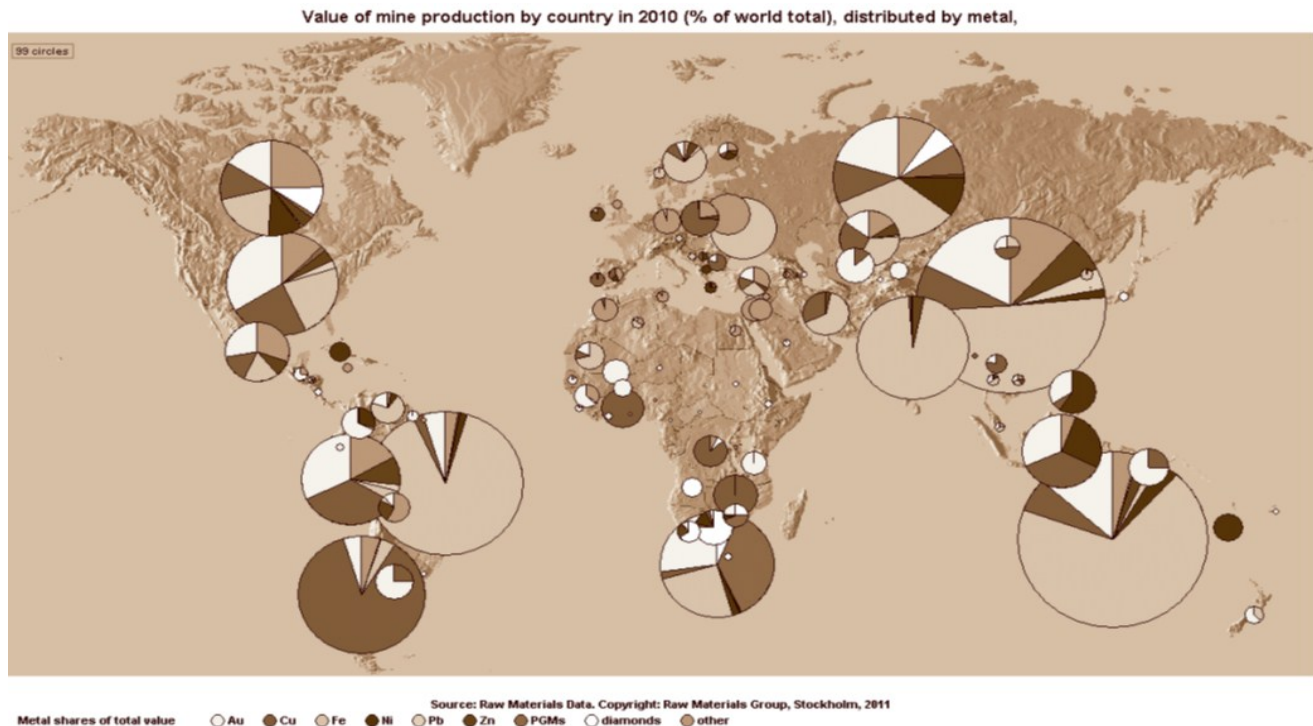
China's decade long economic boom in a coal-driven heavy industry is now heading towards its end as the leadership priorities are shifting towards energy conservation and the restructuring of the Chinese economy. The 12th Five Year Development Plan's (2012-2015) marks a turning point in the country long standing emphasis on economic growth, with a priority thereon on strategies and measures to ensure long term

prosperity, inclusive and sustainable growth. Renewable energy, biotechnology, high-end manufacturing are among the priority sectors that will be promoted under the Plan, leading to an expected increase demand for metals and minerals that sustain those high-tech green industries.

The head of the Energy Research Institute at the National Development and Reform Commission recently noted 'there is no market for further development of energy-intensive industry', with expectation that China's demand for coal and iron ore will peak² when in parallel demand for strategic metals used in high tech products and renewable energy support such as rare earth elements, platinum group metals, copper, cobalt and manganese will soar.

China's economic orientation thus clearly defines new prospects for growing demand for those mining outputs globally, with such shift having repercussions on production and export markets. Africa which hosts about 30 per cent of the world's total mineral reserves and even a higher share of deposits of manganese, bauxite, vanadium, diamonds, platinum, cobalt and zirconium, has considerable investment potential. Compared to other resource-rich regions, the continent is lagging behind in

Diagram 1: Value of mine production by country in 2010



terms of world production output (see diagram 1). Gradually improving, the investment climate has long been stigmatized by high levels of risk and major infrastructure deficits, leaving Africa's mineral potential mostly untapped.

China's growing presence in Africa's mineral sector

Africa has featured prominently in China's overseas investment strategy since the late 1990s when Chinese state-controlled investments first targeted South Africa's ferrochrome industry and Zambia's copper mines. A decade later, Chinese investments reach across all economic sectors, its FDI stock estimated to be around US\$ 13 billion³. State-led investments remain predominant in the resource sector, despite a growing presence of private investors reflecting the diversification of China's mining industry. While Chinese FDI stock remains modest, the significance of China's involvement in Africa's mining sector stems from large-scale investments backed by state diplomacy and financial support that have permitted Chinese companies to penetrate riskier environments, outpacing OECD-based resource companies constricted by purely commercial considerations. Inspired by its own development model, China's commitment in terms of aid or economic cooperation often relates to the recovery of Africa's resources in association with large scale infrastructure development. Chinese policy banks have backed resource for infrastructure deals, most prominently in Angola's oil sector, but similarly in some mineral-rich countries such as in the Democratic Republic of Congo, where a consortium of Chinese SOEs negotiated in 2008 with the DRC Government access to copper and cobalt mineral

concessions in exchange of major infrastructure projects for the benefit of the whole nation. State backed loans have also facilitated large-scale mineral development projects with forward and backward economic linkages, such as in Ghana where a Free Export Processing Zone including a cluster of mineral processing industries is to be developed jointly between the China Africa Development Fund and privately-owned Bosai Minerals Group of China⁴. This distinctive approach to resource development associated with large industrial clusters and infrastructure development concurs in some ways with the objectives of a structural transformation of Africa's resource sector.

The African Mining Vision

Following a long period of decline, global commodity prices have been on an upward trend since 2003, boosting investment in Africa's mining sector. Unprecedented demand for minerals and metals has created an anxious global environment over supply security with traditional mineral-importing countries, the US, Europe and Japan, now competing for access to strategic mineral resources with major emerging economies such as China, India, Russia, gaining further prominence in the global scramble for resources. Increased investment presents new prospects for Africa's economic growth, nevertheless can have complex repercussion for mining governance and long term national development outcomes. Investors' social and environmental performance and impact on the local economy will ultimately depend on the quality of governance in African mining jurisdictions and the ability of national governments to channel investments benefits into development outcomes.

Africa's mineral resource sector still suffers from structural deficiencies characterized by weak linkages with the rest of the economy, a colonial legacy that post-independence resource nationalism and subsequent World Bank reforms designed to promote foreign private investment have failed to redress. A new form of resource nationalism has recently resurfaced, with the review of mining codes that govern the resource sector, a trend that reflects high commodities prices but also popular expectation from civil society for a more equitable redistribution of mining revenues. At the regional level, the African Union has adopted a resource-based development and industrialisation strategy, encapsulated into the African Mining Vision (see box 1).

This continent-wide framework aims to impulse a diversification of national economies away from reliance on un-beneficiated natural resources to leverage mineral extraction and processing operations into broader economic development outcomes and to promote a more inclusive, environmentally and socially responsible mining sector. Regional and national action plans are to be developed fostering comprehensive policy reforms to anchor the minerals sector in a broad development vision, better align mineral, industrial and trade policies and improve governance of the sector.

Non-governmental and governmental organisations have actively engaged with African Governments in discussing the challenges of resource governance and committed to the objectives set in the African Mining Vision. For instance, the Australian Development Aid Agency, AusAID, launched a global Mining for Development Initiative, actively promoting partnerships between a range of stakeholders in Australia and in Africa, with the overriding priority of improving the performance of the mining sector and its development impacts. The Initiative saw the creation of the International Mining for Development Centre, which along a range of private and public actors is currently supporting the African Union and UNECA in the setting up of the African Minerals Development Centre⁵. The European Union, under its Raw Materials Initiative, engaged into a 'raw materials diplomacy' with a view to securing access to strategic commodities while reinforcing its support to African countries for the management of their mineral potential within the larger framework of Joint Africa EU Strategy and Action Plans⁶.

China's pledge to sustainable mineral development

China's formal commitment to promote collaboration in mineral resource development has been reiterated on some occasions, including in its Africa Policy (2006) and Declarations and Action Plans of FOCAC, the Forum on China-Africa Cooperation, emphasising 'the importance of giv[ing] high priority to helping African countries turn their advantages in energy and resources into development strengths, protecting the local environment and promoting sustainable social and economic development in the local areas' (Beijing Action Plan, 2007-2009). To what extent

Box 1 The African Mining Vision

- ◆ A knowledge-driven African mining sector that catalyses & contributes to the broad-based growth & development of, and is fully integrated into, a single African market through:
 - Down-stream linkages into mineral beneficiation & manufacturing;
 - Up-stream linkages into mining capital goods, consumables & services industries;
 - Side-stream linkages into infrastructure (power, logistics; communications, water) and skills & technology development;
 - Mutually beneficial partnerships between the state, the private sector, civil society, local communities and other stakeholders;
 - A comprehensive knowledge of its mineral endowment.
- ◆ A sustainable and well-governed mining sector that effectively garners and deploys resource rents and that is safe, healthy, gender & ethnically inclusive, environmentally and socially responsible;
- ◆ A mining sector that has become a key component of a diversified, vibrant and globally competitive industrializing African economy;
- ◆ A mining sector that has helped establish a competitive African infrastructure platform, through the maximization of its propulsive local & regional economic linkages;
- ◆ A mining sector that optimises Africa's finite mineral resource endowments and that is diversified, incorporating both high value metals and lower value industrial minerals;
- ◆ A mining sector that harnesses the potential of artisanal and small-scale mining to stimulate entrepreneurship, improve livelihoods and advance integrated rural social and economic development; and
- ◆ A mining sector that is a major player in competitive national, continental and international capital and commodity markets.

China has actually engaged with governments to support their mining reform agenda remains however unclear. At the regional level, China has been mainly absent from the on-going discussions on the African Mining Vision and the implementing initiatives.

As a new source of investment into Africa's mining sector and emerging player in the global mining industry, China has not only been under increased scrutiny for its strategic motives but also for the poor social and environmental performance of its companies. Non-compliance with local laws has become a major concern in Chinese-operated resource projects⁸, which to a degree reflects also a weak implementation of laws and regulations in China's domestic mining industry.

The gradual liberalisation of China's Outbound FDI regime has allowed Chinese entities to invest overseas with less restraint, pushing relatively inexperienced companies on the world markets. Conscious of the impact of corporate misconduct overseas on investment performance and state reputation, the Government has stepped in, taking landmark initiatives to inform the behaviour of its national companies towards emerging standards on responsible business conduct and sustainability⁹. The latest policy Guidelines for Environmental Protection in Foreign Investment and Cooperation was co-issued by the Ministry of Commerce and Ministry of Environmental Protection in February 2013 following recommendations by the

Global Environmental Institute, a prominent Chinese NGO. The Guidelines offer guidance to Chinese investors on the scope of their social responsibilities, while providing civil society with a new leverage to hold companies accountable. Lack of binding measures and enforceable mechanisms, however, lessen the impacts of such innovative initiatives, and legitimately doubts persist over the capacity of Chinese companies to conduct their operations in accordance with the principles of CSR and sustainability.

China could seize the opportunity of being more closely associated with Africa's mining reforms agenda to assuage suspicion on its motives and capacity to perform as a responsible development partner. Beijing would equally leave a lasting legacy in devising more stringent policies and regulations for outbound investors that reflect corporate social responsibility and sustainability principles; such formal commitment would place China ahead of its OECD counterparts and in line with the long term objectives of the reform of the international investment regime¹⁰. Leveraging its state-controlled OFDI regime, the Chinese government could set up pre-approval and control mechanisms to hold outbound investors responsible for the observance of host countries' laws and international standards on social and environmental impacts assessments, multi-stakeholders participation processes and community-orientated engagement strategies.

The way forward - Conclusion and recommendations

Africa has defined a new development path based on the exploitation of its mineral resources. Yet, implementation will be a test for the capacities of both regional and national institutions in translating the goals into concrete results.

In the spirit of their vow to improve the governance and performance of the resource sector, African leaders should capitalize on their partnership with China, leveraging their partner's anticipated growing interest in the continent's mineral resources to further their strategic development objectives. The African Mining Vision and its Action Plan offer a framework for China to translate official pledges into concrete actions. Both sides would likely benefit from extending their cooperation within this framework, by giving further consideration, for instance, to:

- Promoting technical and scientific cooperation among academic institutions, government agencies and industry associations from China and Africa to promote mineral skills development, knowledge and capacities in geological research, local processing of African mineral resources, and improved governance of the mining sector.

- Committing public and private entities to transparency and accountability principles through the adoption of the Extractive Industries Transparency Initiative and similar reciprocal accountability standards and mechanisms to ensure that the mining sector delivers development benefits to governments and communities while allowing Chinese investors to operate in a more transparent and predictable environment.

- Involving China's policy banks which still play a significant role in the financing of Chinese FDI in Africa's resource sector, in supporting mineral development projects that are aligned with the objectives of the African Mining Vision. An opportunity for China to convert its commitment to long term sustainability and economic development into concrete measures; by (1) conditioning Government-subsidised loans upon observance of international guidelines such as the Equator Principles, for social and environmental risk management; and (2) channelling state finance into resource contracts that promote local economic development, through upstream, downstream and side-stream linkages where it is efficient and cost-effective.

Endnotes:

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Dr Cristelle Maurin

*Associate
Centre for Chinese Studies
Stellenbosch University*



Contact Us

Centre for Chinese Studies
Stellenbosch University
PO Box 3538
Stellenbosch
South Africa

Tel: +27 21 808 2840
Fax: +27 21 808 2841
Email: ccsinfo@sun.ac.za
Web: www.sun.ac.za/ccs
Twitter: CCS_STELL

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